

No.6/ 18 /DPNP

Jakarta, 20 April 2004

**CIRCULAR**

**To**

**ALL COMMERCIAL BANKS**

**IN INDONESIA**

Subject: Risk Management Application to Bank Services through Internet (Internet Banking)

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In connection with the developing bank services through the Internet (Internet banking), and as further implementation of Bank Indonesia Regulation Number 5/8/PBI/2003, dated 19 May 2003, on Risk Management Application to Commercial Banks (State Gazette of the Republic of Indonesia Number 56/2003, Supplement to State Gazette Number 4292) and Decree of Bank Indonesia Board of Directors Number 27/164/KEP/DIR, dated 31 March 1995, on Use of Information System Technology by Banks, it is deemed necessary to regulate the risk management Application to the Internet Banking activity in a Bank Indonesia Circular as follows:

**I. GENERAL**

1. Internet Banking shall mean one of the Bank services that enables customers to obtain information, communicate and execute banking transactions

through...

through the Internet network, not only banks that provide banking services through the Internet; thus the establishment of Only Banks Internet shall not be allowed.

2. **Internet Banking** may be in the form of **Informational Internet Banking**, **Communicative Internet Banking** and **Transactional Internet Banking**.

Informational Internet Banking shall mean Bank services to customers in the form of information through the Internet network and not execution of transactions.

Communicative Internet Banking shall mean Bank services to customers in the form of communication or interaction with Banks providing limited services not executing transactions.

Transactional Internet Banking shall mean Bank services to customers to interact with Banks providing internet banking services and executing transactions.

3. As the internet banking activity, which is highly risky, is the transactional internet banking, the obligation of the risk management application as regulated in this Circular shall only be imposed on the administration of transactional internet banking.
4. Other provisions and legislation, namely, among others, Law Number 8/1999 on Consumer Protection, and Bank Indonesia regulation on the

principle....

principle of **Know Your Customers** shall also be applicable in connection with the administration of internet banking.

## **II. GUIDELINES ON RISK MANAGEMENT**

1. The Banks that administer internet banking shall apply the risk management to the internet banking activity effectively, including:
  - a. active supervision of the Board of Commissioners and the Board of Directors;
  - b. security control;
  - c. risk management, particularly the risk of law and reputation.

2. Application of the risk management as contemplated in point 1 shall be contained in written policies, procedures and guidelines, with reference to the Guidelines on Risk Management Application to Bank Service Activities through the Internet (Internet Banking), which shall be an inseparable attachment to and part of this Circular.

The Guidelines on the risk management of internet banking shall be part of the Guidelines on the Bank Risk Management Application as a whole as regulated in Bank Indonesia Regulation Number 5/8/PBI/2003 on Risk Management Application to Commercial Banks.

3. The banks that have administered the internet banking activity and already have the written policies, procedures and/or guidelines on the risk

management...

management application on the internet banking activity shall adjust and perfect them with reference to the Attachment to this Circular.

4. In accordance with Bank Indonesia Regulation Number 5/8/PBI/2003 on Risk Management Application to Commercial Banks, the guidelines on the risk management application to the internet banking activity as contemplated in point 3 shall be perfected no later than 31 December 2004.

### **III. REPORTING**

1. In accordance with Decree of the Bank Indonesia Board of Directors Number 27/164/KEP/DIR, dated 31 March 1995, on Use of Information System Technology by Banks, the Banks shall submit the report on the plan to change the Information System Technology (TSI) relating to the configuration and procedures of operating the computers in connection with the plan to administer internet banking no later than 60 (sixty) calendar days prior to implementation. The format of the report shall refer to the TSI Form attached to Circular Number 27/9/UPBB, dated 31 March 1995.
2. In accordance with Bank Indonesia Regulation Number 5/8/2003, dated 19 May 2003, on Risk Management Application to Commercial Banks, the Banks that administer the new activity of internet banking shall report in writing to Bank Indonesia no later than 7 (seven) business days as of the date on which the activity is administered effectively. The format of the

report...

report shall refer to Bank Indonesia Circular Number 5/21/DPNP, dated 29 September 2003, that contains:

- a. A brief description or explanation in the form of a flow chart of the Implementation Procedures (standard operating procedures/SOP) of internet banking;
  - b. The Organization Section and the authority of a certain work unit that administers internet banking;
  - c. The results of the analysis and identification of the risk management work unit at the Banks against the risks adhering to internet banking;
  - d. The results of the trial and error of the measurement and monitoring of the risks adhering to internet banking administered by the risk management work unit at the Banks;
  - e. A brief description of the Accounting Information System for the transactions executed through internet banking, including a brief explanation of the connection of the accounting information system and the Banks' information system as a whole; and
  - f. The results of the legal aspect of internet banking.
3. Fulfillment of the reporting obligation as contemplated in point 2 shall be exempted if the new activity of internet banking has been effectively administered by the Banks before they complete the action plan as contemplated in Bank Indonesia Regulation Number 5/8/PBI/2003, dated 19 May 2003, on Risk Management Application to Commercial Banks.

4. For the Banks...

4. For the Banks exempted from reporting as contemplated in point 3, the obligation to submit the report on realization of the TSI changes relating to internet banking shall be no later than 30 (thirty) calendar days after the plan has been implemented as regulated in Decree of Bank Indonesia Board of Directors Number 27/164/KEP/DIR, dated 31 March 1995, on Use of Information System Technology by the Banks shall remain effective.
5. The aforesaid report shall be submitted to Bank Indonesia to the following addresses:
  - a. Directorate of Supervision of relevant Banks, Jalan M. H. Thamrin Number 2, Jakarta 10110 for the Banks with head offices in Greater Jakarta; or
  - b. The local Bank Indonesia Branch Offices, for the Banks with head offices outside Greater Jakarta.

#### **IV. MISCELLANEOUS**

1. In order to improve effectiveness of the risk management application, the Banks shall evaluate and audit periodically the internet banking activity by using the internal auditor (Internal Audit Work Unit/SKAI) or an external audit.
2. If necessary, Bank Indonesia may inspect the effectiveness and adequacy of the risk management application, particularly in connection with the internet banking activity at the Banks.

#### **V. Sanctions...**

## **V. SANCTIONS**

1. Failure to meet the reporting obligation as contemplated in points III.1 and III.4 shall be imposed with administrative sanctions as regulated in Article 6 of Decree of the Board of Directors Number 27/164/KEP/DIR, dated 31 March 1995, on Use of Information System Technology by the Banks.
2. Failure to meet the reporting obligation as contemplated in point III.2 shall be imposed with administrative sanctions as regulated in Article 33 of Bank Indonesia Regulation Number 5/8/PBI/2003, dated 19 May 2003, on Risk Management Application to Commercial Banks.

## **VI. CLOSING**

This Bank Indonesia Circular shall be effective as of 20 April 2004.

In order for everybody to be informed thereof, it shall be instructed that this Bank Indonesia Circular be announced in the State Gazette of the Republic of Indonesia.

Thank you.

BANK INDONESIA,

(signed)

**NELSON TAMPUBOLON**

DIRECTOR OF BANKING

RESEARCH AND

ADMINISTRATION